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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2017/2018

DII5018 – INTRODUCTION TO INVESTMENT (For Diploma Students Only)

23 OCTOBER 2017
2.30 pm - 4.30 pm
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of **NINE (9)** pages only excluding the cover page and formula appendix.
2. Answer **ALL** questions.
3. Answers for Section A and B should be shaded on the OMR sheet provided.
4. For Section C, please write your answer in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS (each question carries 1 mark) Answers should be shaded on the OMR sheets provided.

1. An investor would like to see his reward in the form of _____ from investment and _____ of investment.
 - A. income, increase in value
 - B. salary, increase in bonus
 - C. income, decrease in value
 - D. salary, increase in money
2. Ali invested RM10 today and in return he will receive RM30 in the next 2 weeks. What will be the amount increase in his investment value?
 - A. RM10
 - B. RM15
 - C. RM20
 - D. RM21
3. A(n) _____ is a legally documented claim on an asset, while a _____ is an actual, tangible asset which may be seen, felt, held, or collected.
 - A. real asset; financial asset
 - B. financial asset; real asset
 - C. indirect equity claim; direct equity claim
 - D. personal asset; fixed asset
4. Which of the following is NOT an example of investment for growth oriented stage?
 - A. Common stocks
 - B. Options
 - C. Futures
 - D. Preferred stock
5. A very high conservative investments portfolio is MOST appropriate for _____.
 - A. young investors
 - B. new investors
 - C. retire investors.
 - D. high income investors
6. What will be the major function of an investment bank?
 - A. Providing loan to investors.
 - B. Assisting businesses when they issue stocks.
 - C. Providing financial planning services.
 - D. Developing investment strategies to lower the risk.

Continued...

7. Which of the below statement is referring to an indirect investment?

- A. Purchasing government bonds
- B. Purchasing common stock
- C. Purchasing unit trust
- D. Purchasing real estate

8. Some investors will need to lend funds in exchange for an interest income. This situation is best describing _____

- A. equity.
- B. derivative.
- C. risk.
- D. debt.

9. Haikal who plans to be an investor, was advised by his friend about the uncertainty of the return that he will get in the future. This uncertainty is actually referring to _____?

- A. bond
- B. tax
- C. risk
- D. equity

10. Individuals are labeled as a _____ because they put more investment into the financial system via savings.

- A. net income
- B. net demanders
- C. net supplier
- D. net savers

11. If a company decides to trade securities that have been already issued, the suitable market to do so will be in _____.

- A. primary market
- B. secondary market
- C. third market
- D. fourth market

12. Lina wants to buy long-term securities such as bonds. Which of the following type of market is suitable for her?

- A. Capital market.
- B. Stock market.
- C. Money market.
- D. Third market.

Continued...

13. During the waiting period in SEC approval, prospective investors will receive a preliminary prospectus call _____.

- A. underwriting offering
- B. blue notification
- C. red herring
- D. initial offering

14. Which of the below is the role of a secondary market?

- A. Provides small trading.
- B. Provides unlisted stocks.
- C. Provides liquidity.
- D. Provides trading tools.

15. They purchase the security at agreed-on price and bears the risk or reselling. This is a role of a/an _____.

- A. commercial banks
- B. investment banks
- C. savings banks
- D. credit union

16. Choose below statement that describes the underwriting syndicate:

- I. facilitates the sale of new securities;
- II. is formed by the originating banker;
- III. share risk of underwriting

- A. I and II
- B. I and III
- C. II and III
- D. all of the above

17. _____ is a market condition where economy growth is growing, where else _____ is a market condition that the economic is slowing down.

- A. Good, bad
- B. Bull, bear
- C. Nasdaq, OTC
- D. Bursa saham, future exchange

Continued...

18. A market maker _____.

- I. sells stock at the ask price;
- II. buys stock at the ask price;
- III. sells stock at the bid price;
- IV. buys stock at the bid price

- A. I and II
- B. I and IV
- C. II and III
- D. III and IV

19. A company or an individual can diversify their investment in order to increase return or reduce risk. What does diversification mean?

- A. Using a number of different types of investment vehicles.
- B. Investing in one market only.
- C. Securities are traded in one country.
- D. Trading using a minimum amount of money.

20. Aik Ching is planning to invest his money internationally, Aik Ching is possible to faces the risk of _____.

- A. borrowing more money
- B. investor policy
- C. currency exchange rate
- D. market positioning.

21. Which of the following is the most suitable trading hours in Bursa Saham Malaysia?

- A. 8.00am – 8.25am.
- B. 12.30pm – 1.30pm.
- C. 2.30pm – 3.30pm.
- D. 5.30pm – 6.00pm.

22. Rahman buy a share when the price is low and sell it back when the price increase. What type of purchasing way he is practising?

- A. Short call purchase
- B. Margin trading.
- C. Short sale.
- D. Long purchase.

23. What will be the reason for some investors to go for margin trading?

- A. Magnify their losses
- B. Interest expense
- C. Magnify profits
- D. Time value of money

Continued...

24. Lily wants to ensure she earn capital gain when the stock price goes down. Which of the below action that she can perform?

- A. Long selling.
- B. Short selling.
- C. Margin trading.
- D. Short invest.

25. Ju Hong purchased 200 unit of shares at a price of RM20 per share. Assume she utilised her 60% margin account to make the purchase. What is Ju Hong's initial equity in this investment?

- A. RM800
- B. RM1,600
- C. RM2,400
- D. RM4,000

26. Sam purchased 150 unit of shares at a price of RM30 per share. He utilised 30% margin account to make the purchase. What is Sam's debit balance in this investment?

- A. -RM3,150
- B. RM1,350
- C. RM1,800
- D. RM3,150

27. Hui Yan purchases 250 unit of shares for RM3.00 per share on a 40% margin. Assuming that Hui Yan is holding the shares for one year and her interest will be RM10 over the period. She also received dividends amounting to RM0.50 per share. How much will be her percentage return on invested capital if she sells the shares for RM5.00 per share?

- A. 2.05%
- B. 100%
- C. 136.67%
- D. 205%

28. Maintenance margin is the _____.

- A. minimum amount of loan that can be used for margin trading
- B. initial amount of equity required for a margin purchase
- C. minimum amount of equity that an investor can have to avoid a margin call
- D. additional funds that need to be added to an account to meet minimal equity

Continued...

29. Which of the below market involves trading in smaller or unlisted securities?

- A. Nasdaq market.
- B. Securities market.
- C. Dealer market.
- D. Over-the-counter market.

30. Which of the following are functions of the secondary market?

- I. Provide liquidity for current stockholders
- II. Equate the demand and supply of securities
- III. Provide a market for the sale of new stock by companies that are public
- IV. Provide continuous pricing of securities

- A. I, II and III only
- B. I, II and IV only
- C. I, III and IV only
- D. I, II, III and IV

[TOTAL 30 MARKS]

SECTION B: TRUE OR FALSE QUESTIONS (each question carries 1 mark).
Answers should be shaded on the OMR sheets provided. Shade A for True, and B for False answer.

31. Land and buildings are examples of real property investments.

32. An equity represents ongoing ownership in a business or property.

33. Institutional investors manage money for businesses and non-profit organisations, but not individuals.

34. Assessing potential return and risk is part of an investor evaluating investment.

35. Mutual funds invest in diversified portfolios of securities.

36. A company must observe a quiet period from the time it files a registration statement with the SEC until at least one month after an IPO is complete.

37. The lowest price at which a market maker is willing to sell is called bid price.

38. Margin trading will magnify profit on a percentage basis.

39. In broker markets most of the securities being trade is bonds.

40. One of the primary role of Securities Commission Malaysia is to advise the Minister of Finance on all securities and futures contract industries matters.

[TOTAL 10 MARKS]

Continued...

SECTION C: STRUCTURED QUESTIONS. Answers should be written on the answer booklet provided.

QUESTION 1

	Expected Return (%)	
Year	Stock A	Stock B
2012	12	8
2013	8	12
2014	9	9
2015	13	10
2016	10	14

Table 1

Hayley is currently analysing her portfolios performance for the past five years, which combine both Stock A and Stock B from two different company. Table 1 above is the historical data for both company. Based on the data, kindly provide Hayley the answers for the following questions:

- The expected portfolio return for each of the given year, where Stock A represent 60% while Stock B 40% of the portfolio. (8 marks)
- The average expected portfolio return over the period. (2 marks)
- The standard deviation of expected portfolio return. (5 marks)

(Total 15 marks)

QUESTION 2

- A bond is currently selling in the market for RM928.62. It has coupon of 10% and a 10 years to maturity. Calculate the yield to maturity for this bond. (4 marks)
- A bond with par value RM1,000, 7% semi-annual coupon bond that matures in 2 years and currently sells for RM997.07. Calculate:
 - Current yield (2 marks)
 - Yield to maturity (4 marks)
- Bond ratings are an important element of the bond market. Briefly explain:

Continued...

i) what bond ratings are, (1 mark)
 ii) who issues the ratings, (2 marks)
 iii) what the ratings mean to the average investor (2 marks)

(Total 15 marks)

QUESTION 3

You are given the following abbreviated financial statement.

	(RM)
Current assets	150,000
Fixed assets	200,000
Total assets	350,000
Current liabilities	100,000
Long-term debt	50,000
Stockholder's equity	200,000
Total liabilities and equities	350,000
Common share outstanding	10,000 shares
Total revenues	500,000
Total operating costs and expenses	(435,000)
Interest expense	(10,000)
Income taxes	(20,000)
Net profits	<u>35,000</u>
Dividends paid to common stockholders	RM10,000

Calculate :

i) Current ratio (2 marks)
 ii) Debt-equity ratio (2 marks)
 iii) Return on Assets (2 marks)
 iv) Earnings per share (2.5 marks)
 v) Dividends per share (2 marks)
 vi) Payout ratio (2.5 marks)
 vii) Book value per share (2 marks)

(Total 15 marks)

Continued...

QUESTION 4

a) The Street Chips Fund Bhd. plan to invest in ASEAN countries. The company has a total of RM20,000 to be invested. Out of the RM20,000, they agreed to invest 20% in Brunei, 30% in Malaysia, and 25% each in Thailand and Indonesia. The total liabilities for Street Chips is to RM43,500. The fund has currently 750 units of share outstanding in the market, and funds' assets is RM60,000.

- i. Calculate the amount that Street Chips invested at each country. (4 marks)
- ii. Calculate the NAV per unit. (3 marks)
- iii. Calculate how much Gery need to invest if he wants to buy 1,500 units of the fund. (2 marks)
- iv. If Gery intended to pursue his study in PhD where he shall need another RM25,000 for the fees, compute the total units need to be sold by him if the NAV of the fund he invested increased by RM3. (3 marks)

b) List down **THREE (3)** uses of mutual funds for investors. (3 marks)

(Total 15 marks)

[TOTAL 60 MARKS]

End of Page.

APPENDIX:

Margin = $\frac{\text{Value of securities} - \text{Debit balance}}{\text{Value of securities}}$ $= \frac{V - D}{V}$
Return on invested capital from a margin transaction = $\frac{\text{Total current income received} - \text{Total interest paid on margin loan}}{\text{Amount of equity at purchase}} + \frac{\text{Market value of securities at sale}}{\text{Market value of securities at purchase}}$
Required return on investment j = Real rate of return + Expected inflation premium + Risk premium for investment j
Risk-free rate = Real rate of return + Expected inflation premium
Holding period return = $\frac{\text{Income during period} + \text{Capital gain (or loss) during period}}{\text{Beginning investment value}}$
Capital gain (or loss) during period = Ending investment value - Beginning investment value
$r_p = (w_1 \times r_1) + (w_2 \times r_2) + \dots + (w_n \times r_n)$
$bP = (w_1 \times b_1) + (w_2 \times b_2) + \dots + (w_n \times b_n)$
Required return = risk free rate + [beta (market return - risk free rate)]
Standard deviation = $s_p = \sqrt{\left(\sum_{i=1}^n (r_p - \bar{r})^2 \right) \div (n - 1)}$
Current ratio = $\frac{\text{Current assets}}{\text{Current liabilities}}$
Accounts receivable turnover = $\frac{\text{Annual sales}}{\text{Accounts receivable}}$
Inventory turnover = $\frac{\text{Annual sales}}{\text{Inventory}}$
Total asset turnover = $\frac{\text{Annual sales}}{\text{Total assets}}$

(i)

$$\text{Debt-equity ratio} = \frac{\text{Long-term debt}}{\text{Stockholders' equity}}$$

$$\text{Times interest earned} = \frac{\text{Earnings before interest and taxes}}{\text{Interest expense}}$$

$$\text{Net profit margin} = \frac{\text{Net profit after taxes}}{\text{Total revenues}}$$

$$\text{ROA} = \frac{\text{Net profit after taxes}}{\text{Total assets}}$$

$$\text{ROE} = \frac{\text{Net profit after taxes}}{\text{Stockholders' equity}}$$

$$\text{EPS} = \frac{\text{Net profit after taxes} - \text{Preferred dividends}}{\text{Number of shares of common stock outstanding}}$$

$$\text{Dividend yield} = \frac{\text{Annual dividends received per share}}{\text{Current market price of the stock}}$$

$$\text{Dividend payout ratio} = \frac{\text{Dividends per share}}{\text{Earnings per share}}$$

$$\text{P/E} = \frac{\text{Net price of common stock}}{\text{EPS}}$$

$$\text{Dividends per share} = \frac{\text{Annual dividends paid to common stock}}{\text{Number of common shares outstanding}}$$

$$\text{Book value per share} = \frac{\text{Common stockholders' equity}}{\text{Number of common shares outstanding}}$$

$$\text{Price-to-book-value} = \frac{\text{Market price of common stock}}{\text{Book value per share}}$$

$$\text{PEG Ratio} = \frac{\text{Stock's P/E ratio}}{\text{3-5 years growth rate in earnings}}$$

$$\text{Conversion Equivalent} = \frac{\text{Current market price of the convertible bond}}{\text{Conversion ratio}}$$

Conversion Premium (in RM) = Current market price of the convertible bond - Conversion value

Conversion Premium (in %) =
$$\frac{\text{Conversion Premium (in RM)}}{\text{Conversion Value}}$$

Yield to Call =
$$\frac{\text{Annual Interest} + \frac{\text{Call Price} - \text{Market Price}}{\text{Number of Years to Call}}}{\frac{\text{Call Price} + \text{Market Price}}{2}}$$

Yield to Maturity =
$$\frac{\text{Annual Interest} + \frac{\text{Par Value} - \text{Market Price}}{\text{Number of Years to Maturity}}}{\frac{\text{Par Value} + \text{Market Price}}{2}}$$

Current yield =
$$\frac{\text{Annual interest income}}{\text{Current market price of the bond}}$$